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Pete Wilson: State needs stable, reliable budgeting

By Pete Wilson

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Gov. Arnold Schwarzenegger, in making budget reform the centerpiece of his State of the State address, has challenged his administration and the Legislature to bring order and sanity to state finances.

The vast majority of Sacramento's spending is driven by formulas and commitments that cannot be changed without legislative approval. So in bad times, instead of government cutting spending to keep pace, the increases continue, creating multibillion-dollar deficits.

Unless legislators act to change the formulas, we will see deficits whenever the economy slows. They act as though they are helpless to amend the automatic increases. But they are not powerless. They can vote to change the law. They simply choose not to.

When I became governor in 1991, the nation was mired in a terrible recession – the worst since the Great Depression. California was losing tens of thousands of manufacturing jobs. The aerospace and defense industries were withering.

As a result, the state revenue gap was \$7 billion when I submitted the budget in January, and by July grew to \$14.3 billion – roughly one-third of the general fund! We had to make tough choices to balance that budget, and our state's credit rating suffered. The Democratic majorities in both houses voted to cut \$7 billion – a greater general fund percentage than the deficit facing the present Legislature – because they realized it was the responsible step to take.

Continuing revenue declines required that I submit an even tighter budget in 1992. Democrats finally voted for cuts because they really had no choice, but the budget was passed 64 days late.

That year, I tried to reform the process through Proposition 165, which authorized the governor to make midyear spending reductions to prevent deficits. The initiative failed, and we had to painfully claw our way back to fiscal health.

During the boom years resulting from the dot-com bubble and stock market growth, state revenues spiked, but the Legislature spiked spending right along with them.

Everyone knows what happened next. The bubble burst in 2001. Revenues fell dramatically, but the Legislature and Gov. Gray Davis ignored the constitutional prohibition on deficit spending

and spent billions we didn't have. Three years of growing deficits led to the first recall of a governor in California history.

Schwarzenegger took office recognizing the need for an enforceable spending limit. But the spending cap he proposed in 2005 under Proposition 76 did not pass. Now the mortgage crisis and depressed housing market are producing another huge deficit, which means significant cuts again are needed.

Schwarzenegger is correct to resist calls for higher taxes. In 1991, after exacting a proportionately greater spending cut from the Democratic majority than Schwarzenegger is seeking now, I was compelled to close the gap with temporary tax increases – which I hated – to avoid an unconstitutional deficit. Increasing taxes now would further depress economic growth and reduce revenues, leading to the need for further spending reductions and service cuts.

We need a system that reserves money in robust years to cover shortfalls in lean years. It makes no sense for the state to spend every penny when revenues are healthy. No family or business could prosper that way, but the state ignores this basic common sense.

California must have a smarter, more stable budget process.

The Legislature must be required to put money aside. It cannot be allowed to continue spending its way into crisis after crisis. Creating big budget deficits violates the trust of the people who expect elected leaders to deal with their tax dollars responsibly.

The governor and the Legislature must impose upon themselves – and their successors – strictly enforceable requirements that prevent them from spending money the state doesn't have.

Only through stable, reliable and responsible balancing of state revenues and spending can we adequately protect state services in good years and bad. That is what Californians need and deserve.